



**KINGDOM OF MOROCCO**  
**COURT OF ACCOUNTS**  
**CHAMBER IV**

**Summary Report n°1/14/CH IV**

**Performance Audit of**  
**The Development and Co-operation Office**

**February 2015**

## SUMMARY

### Presentation

Law n° 24.83 establishing the general statute of co-operatives and the missions of the Development and Co-operation Office<sup>1</sup> (DCO), promulgated in 1984, specified the mission of DCO, making of it the body in charge of the implementation of government policy in the field of co-operatives.

DCO was tasked, inter alia, with centralizing and examining the applications for the incorporation of co-operatives, assisting co-operatives in the areas of training, information, amicable settlement of disputes arising among co-operators and making sure that co-operatives meet the requirements of the principles of co-operation provided under the law.

This Law defined “co-operative” as a grouping of natural persons, who agree to team up to create a company in charge of providing, to their exclusive satisfaction, the product or service which they need in their economic activities, seeking to improve the marketability of the products supplied to their members or those produced by them, as well as optimally developing and enhancing members’ production.

The new Law n° 112.12 of 21 November 2014 introduced amendments to the text in force, particularly through replacing the approval delivery by DCO with a simple registration at the court supervising the incorporated co-operative.

According to the provisions of the new law, DCO is also in charge of keeping a national register of co-operatives. This register will be fed by provincial records kept by the registries of lower courts.

It should be noted that at the end of 2013, DCO employed 121 agents and its budget amounted to 52.06 million MAD including 22 million MAD as staff costs. It has 15 regional delegations.

### ***1. Co-operative sector in Morocco***

The overall number of co-operatives’ members in Morocco rose from 380.144 members in 2008 to 463.850 members in 2013, up 22% over five years.

### ***An increase in the number of co-operatives to be qualified***

In the past six years the co-operative movement in Morocco was characterized by a multiplication of the number of co-operatives created at a constant annual pace. The number of approvals granted per year tripled in five years. Hence, in 2012 and 2013, the Office granted 1.572 and 1.406 approvals respectively, as against 364 and 487 in 2006 and 2007 respectively.

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<sup>1</sup> Office de développement et de coopération (ODCO)

Nevertheless, the average size of the approved co-operatives, in terms of authorized capital, posted a significant decline, down from 46.631 MAD on average in 2008 to 11.253 MAD in 2013. This size also decreased significantly in terms of the average number of members per co-operative, down from 25 members per co-operative in 2008 to 13 in 2013.

In addition, while the increase in the number of co-operatives can be explained by the fact that social categories in unstable economic situation (young people, women, independent workers...) increasingly resort to the incorporation of reduced-sized co-operatives to share their production resources and to better develop their activities, such increase is to be interpreted by the fact that many co-operatives remain inactive.

In this regard, it was noted that the Office conducts little control on co-operatives and resorts even less to approval withdrawals from the co-operatives which fail to conduct any activity for a period of two years as stipulated by the law. In 2014, DCO examined 25 approval withdrawal files without carrying out any withdrawal.

A general census of co-operatives, launched in 2014, is supposed to make it possible for the Office to specify the number of inactive co-operatives.

Moreover, the distribution of the approved co-operatives in the last six years per industry branch shows considerable disparities among the various sectors. Hence, agriculture and its related activities largely dominate the spectrum. The co-operatives of agriculture and foodstuffs accounted for nearly 70% of the entire set of co-operatives created throughout the period 2008-2013.

The preponderance of agricultural cooperatives is also confirmed in terms of the number of members. Indeed, agricultural co-operators constitute almost 70% of the total number of additional co-operators per year. The number of agricultural cooperatives created per year multiplied by four from 2008 to 2012.

On the other hand, the approved co-operatives intended to operate in urban activities, as well as their members, amount to an insignificant number. It follows that the co-operative as a legal form is in practice sought almost exclusively by economic agents operating in rural areas.

Consequently, it turns out that the momentum of creating co-operatives in urban areas and in sectors other than agriculture is not properly engaged. However, DCO still does not have a strategic plan to promote the targeted creation of co-operatives in specific areas or sectors.

### ***Strong regional concentration in the creation of co-operatives***

The momentum of creating co-operatives shows also strong disparities between the regions of the Kingdom. Certain regions were characterized by a high rate of creating co-operatives over the period 2008 - 2013, whereas others, though famous for a

strong agricultural potential, such as Tadla-Azilal, witnessed a very limited number of creations of co-operatives.

These disparities are ascribable by the Office to the programs of National Initiative for Human Development, Green Morocco, and other regional programs (Agency of the South, Agency of North) contributing to the support provided for creating agricultural cooperatives in specific areas.

In addition, the number of new co-operators per region is also an indicator of the intensive deployment of the co-operative movement by region. In this regard, regions such as Greater Casablanca and Oued Eddahab-Lagouira were marked by their poor co-operative momentum.

These differences among regions in terms of the number of co-operatives created and the number of added members show the poor influence that DCO has on the momentum of creating co-operatives, because of the lack of detailed studies on the economic potential of the various regions in this regard.

### ***Poor economic weight of co-operatives***

Though co-operatives were obliged by law to keep accounts approved by an auditor, a considerable number of them found it difficult to meet this obligation<sup>12</sup>.

Indeed, the co-operatives' balance sheets and accounts, once approved by the general meeting, should be transmitted to DCO. However, some co-operatives do not satisfy this obligation in spite of the efforts made by DCO. Others, though active, do not hold their general meetings regularly. Aware of this loophole, Article 97 of the new Law on co-operatives sanctions the failure to observe this measure by fines ranging between 8000 MAD and 40.000 MAD.

Hence, it was noted that the cumulative number of approved co-operatives doubled between 2008 and 2013, whereas the declared total authorized capital increased only by 2.2% over the same period. This confirms the fact that the multiplication of co-operatives did not result in the expansion of the productive fabrics shared by these co-operators.

In addition, it should be noted that the total turnover of the reporting co-operatives was in permanent decline year after year from 2008 to 2013 to settle at 4.53 billion MAD only instead of 6.01 billion in 2008. However, the turnover by co-operative is relatively significant; it is around 8 million MAD per reporting co-operative. This could be explained by the fact that reporting co-operatives are in general those organized and enjoying a significant level of activity such as dairy cooperatives.

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<sup>2</sup> The new Law n°112.12 of 21 November 2014 introduced a limitation in this respect, stipulating that only the co-operatives whose turnover exceeds 10 million MAD in 2 consecutive years are held to name an auditor.

Hence, the total turnover of reporting co-operatives, which borders 6 billion MAD per year, accounts for 0.7% of national GDP. This constitutes a major indicator of the weakness of the economic weight of the co-operative sector in the national economy, compared to other countries (3.2% of GDP in Malaysia).

Moreover, the average profit of reporting co-operatives, very modest throughout the period under review, was in constant decline year after year to settle at 83.715 MAD only in 2013 as against 110.727 MAD in 2008. The number of reporting co-operatives was divided by two between 2008 and 2013, down from 727 to 464. This shows an increasing tendency among the co-operators not to report their income.

On the other hand, it should be noted that little information exists at DCO on the management capacities of Moroccan co-operatives, particularly the number of employees and their profiles.

### ***Considerable disparity between regions in co-operatives' activity***

The analysis of the standards of co-operatives' activity by region reveals strong concentrations of this activity on three regions. Indeed, the co-operatives of the region of Souss-Massa-Drâa posted, over the period 2008-2013, a turnover of 19.07 billion MAD; or almost 2/3 of the total turnover reported at the national level during the same period, which amounts to 32.05 billion MAD.

Gross disparities are also noted between regions as to the declaration of co-operatives' income. Hence, the annual profit reported by region was in constant decline except for the two regions of Laayoune and Guelmim-Smara; whereas the total annual income reported by the co-operatives of Tangier-Tétouan Region, for example, decreased from 27.44 million MAD in 2008 to only 1.07 million MAD in 2013.

The disparity and weak rate of income reporting by co-operatives can be noted under other aspects. Indeed, the co-operatives of the regions of Souss-Massa-Darâa, Tadla-Azilal and Tangier-Tetouan reported revenues amounting to 62% of the total income reported nationwide over the period 2008-2013. Moreover, on a turnover of 2.71 billion MAD, the co-operatives of the region of Doukkala-Abda reported an income of only 24.82 million MAD.

### ***Comparison with other countries***

At the end of 2013 Morocco comprises 12 690 co-operatives, including more than 7.000 agricultural ones. The number of members is estimated at nearly 463.850 co-operators, which accounts for hardly 4% of the active population of the country.

However, according to International Labor Organization (ILO), co-operative companies help ensure the subsistence of about three billion individuals in the entire world. They have one billion members and provide more than 100 million jobs. Malaysia, for example, had 9.074 co-operatives in 2011 with 7 million members.

Belgium had 1553 co-operatives in this same year with 3.6 million members. Hence, the number of co-operative members in Malaysia, for example, accounted for 25% of the total population in 2011. In Morocco, this rate was only 1.40% in 2013.

In comparison with other countries, Morocco still has great potential of expanding the co-operative sector, especially in terms of the number of members.

It should be noted also that Morocco shows the lack of co-operatives in prosperous sectors elsewhere such as consumption and credit distribution.

DCO should then intensify awareness-raising, outreach and orientation campaigns to attract independent actors with great potential to become members or establish co-operatives.

Moreover, it was noted that the co-operatives of the other countries are organized in associations or federations (in addition to the presence sometimes of a state-run entity). This has the merit of allowing a better formulation of co-operators' needs as regards training and other support services. In this regard, the National Federation of Co-operatives in Morocco, although provided under Law n° 24.83, was not implemented.

## ***2. DCO's execution of its legal missions***

### ***Inadequate services provided by DCO***

DCO's mission is provided under Law n°24.83. Indeed, the Office is in charge of examining the applications for incorporating co-operatives, providing them with training, information and legal assistance, centralizing and disseminating the documentation of the information on co-operation, financing, outreach and training campaigns, assisting co-operative institutions in the field of management, conducting amicable settlement of disputes arising among co-operators, as well as making sure that co-operatives meet the requirements of the principles of co-operation by conducting frequent controls.

However, it was noted that these various responsibilities of the Office are not translated into a multiannual strategy or action plans formalized by DCO.

The new law of 2014 made modifications as regards the incorporation of co-operatives, providing that DCO will have just to approve the denomination of the co-operative to be incorporated within 02 days; the founders will thereafter have to file at the registry of the lower court the statute of the co-operative signed by all members and the documents justifying the release of the entire subscribed authorized capital. DCO will also keep a national register of co-operatives fed by provincial records kept by the registries of lower courts.

The examination of the approval process revealed the prevalence of sectoral administrations in the consultations leading to the award of approval to co-operatives.

This indicates a multitude of actors in the co-operative sector and an inaccurate definition of DCO's role in this regard.

Concerning the training mission, DCO offers training courses benefiting co-operators as regards co-operative management and financial management. These sessions are led mainly by the delegates of the Office in the regions. The number of sessions organized per year evolves very modestly; it even fell significantly in 2013. Consequently, the training delivery rate did not accompany the reduction of co-operatives in the last six years.

Moreover, the awareness-raising and information activities intended to diffuse and popularize co-operation values and concepts are in considerable quantities and considerable increase. But the number of beneficiaries of such activities remains very modest in view of the total number of co-operators in Morocco. Indeed, the awareness-raising activities cover less than 0.1% of independent active workers in Morocco.

The awareness-raising activities targeting populations other than co-operators, such as radio and television programs are very limited in number, whereas this type of awareness-raising is crucial to arouse the interest of large sections of active workers in the co-operation concept.

In addition, the Office does not keep cost accounting to be able to evaluate the unit costs of the various services. However, it was noted that the Office expenses increase at a rate much faster than that of the number of the co-operatives created per year. Indeed, the cost of the services delivered by the Office by co-operative increased by more than 30% throughout the period under review.

### ***Poor control of co-operatives***

The Office is assigned by Law n° 24.83 the mission of conducting the amicable settlement of disputes within co-operatives. In fact, such disputes cannot be the object of legal action before attempts of amicable conciliation are made by the qualified unions or DCO.

While the Office settled a considerable number of disputes per year, this number recorded a significant decline between 2008 and 2013.

It should be stressed that DCO's responsibility of settling disputes between co-operators was removed by the Law on Co-operatives of 2014. Such disputes will be directly brought before the federations in which the co-operative concerned is a member, otherwise before the National Federation of Co-operatives or competent courts.

In addition, DCO is held to regularly check, inter alia, the respect of the principles of co-operation as stipulated by the law. These controls relate mainly to the regularity of

holding boards of directors meetings and general assemblies, updating members list, the employment situation and good book-keeping.

The Office carried out on average 32 audit missions per year at co-operatives to monitor the continuity of the respect of co-operation principles. This is insufficient in view of the total number of co-operatives.

Moreover, DCO does not run an annual program to conduct these missions at some co-operatives selected on the basis of sectoral or regional criteria.

One of the consequences of this lack of control on co-operatives is the very limited number of those paying parafiscal charges funding the Office budget, which is declining year after year.

### ***3. Inadequate governance and management***

#### ***Management deficiencies***

DCO does not regularly convene its board of directors as provided under the law. Consequently, the budgets, accounts and financial statements are not established and approved within the prescribed timeframes.

Moreover, the major resources of the Office come from State subsidies. It receives an annual operation subsidy of 17 MMAD. It also received an investment subsidy of 5 MMAD within the framework of Performance Contract 2009-2012, another amounting to 20 MMAD relating to the Mourafaka Program for 2011-2015 and yet another amounting to 5 MMAD within the framework of the socio-economic plan of Rabat Region for 2010-2014. The Office's own revenues, mainly made up of parafiscal<sup>3</sup> tax, represent only a negligible part of its resources and are in constant decline year after year.

Personnel costs constitute more than 80% of the total expenses, and represent together with the costs of the rent of administrative buildings more than 90% of the budget. Moreover, the existence of a significant volume of cash (4.4 MMAD) testifies to the slow implementation of partnership programs. In this regard, the Office does not distinguish at the accounting level between these own funds and those resulting from agreements.

In addition, the Office does not yet have an information system. Its 15 regional delegations are not connected to the Head Office by a computing network. This generates serious failures as to entering statistical data relating to the activity of co-operatives, as well as accounting data on the activity of the Office. Consequently, the Office does not have dash-boards relating to performance indicators, and shows considerable delays in the establishment of its financial statements.

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<sup>3</sup> It relates to the co-operative development tax whose amount is 2% of the net surpluses of the co-operative.



### ***Poor completion rate of partnership agreements***

#### ***Performance Contract 2009-2012 with the State***

Within the framework of the performance contract 2009-2012 amounting to 20 MMAD, DCO was committed to expanding its regional network by the creation of three new delegations, carrying out an investment plan in terms of studies and material equipment, setting up an information system and information strategic plan as well as developing its human capital by the reinforcement and enhancement of their skills. Most of the objectives of this contract posted considerable delays. Indeed, the information system strategic plan was not delivered and the new draft law on co-operatives was adopted only towards the end of 2014.

#### **Post-creation Support Program for MOURAFKA co-operatives (2011-2015)**

Mourafaka Program 2011-2015 aims to reinforce the human competences of new co-operatives, improve the mastery of production techniques, promote strategic planning, the follow-up and evaluation as well as reinforcing the marketing of the co-operatives' products. This program, amounting to 85 MMAD, which targeted 2000 newly created co-operatives, suffered from launching difficulties. Indeed, its follow-up committee convened only once in June 2011. Moreover, the condition of having existed for less than two years to be eligible for support proved to be inadequate since very few co-operatives could request specific assistance in such a short time after their incorporation.

#### **Regional plan of social and solidarity economy for the Region of Rabat 2010-2014**

This program, amounting to 30.5 MMAD, aimed to increase the rate of the active population supervised by the co-operatives in the Region of Rabat by 2% in 2010 to 6% in 2014, increase the number of members in the co-operative sector to more than 60.000 members instead of 18.119 in 2010 and improve the income of co-operatives' members. For this purpose, it planned the organization of mobile markets for the promotion of co-operatives' products in the region as well as the organization of training courses for the benefit of members. It was noted that the completion rate of this program is very poor, not exceeding 2.6% of the forecasts.

#### **Agreement of granting the donation of "Institutional Development Fund" of the World Bank**

This agreement, amounting to 382.500 Dollars and covering the period 2009-2012, aimed at promoting the study of the draft bill on co-operatives, the development of its application decrees and the revision of DCO responsibilities as well as the preparation of a study on the environment and co-operatives' capacities.

The implementation of this agreement was carried out only very partially with limited achievements amounting to only 40.000 US Dollars, or 10% of the grant.

For the other agreements, regional in nature, it was noted that they are not steered by the Office and consequently the relevant data are not filed.

### **A. Major recommendations**

In the light of the above-mentioned inadequacies testifying to the lack of DCO control over the co-operative sector, and taking into account the doubts cast on its role as regards the delivery of approvals, the Court of Accounts invites the public authorities to undertake a serious reflection on the future of this organization.

#### **Meanwhile, the Court recommends the following to DCO:**

*1- Ensure the establishment of close cooperation with the Ministry of Agriculture and Agricultural Development Agency to guarantee the follow-up of the evolution of the activity of agricultural cooperatives and the government aid that they receive, and to reinforce its monitoring of the co-operative sector, ensuring the collection and centralization of all the data relating to the standard of activity of co-operatives, particularly those whose turnover would exceed a pre-determined threshold;*

*2- Better respect its institutional obligations with the State by activating the adoption of an operational information diagram as well as the related information system. Such system should allow the Office an adequate financial management and a better collection and management of information on the co-operative sector;*

*3- Perform its legal mission as regards the control of co-operatives by adopting a multiannual plan in order to ensure the respect of co-operative principles;*

*4- Intensify the efforts as regards training in view of the growing number of the members of co-operatives and to design targeted outreach actions, which could cover a significant number of active workers that would potentially create co-operatives or become members thereof;*

*6- Further exploit the development potential of co-operatives, particularly in urban areas and promising sectors such as transport, education and trade;*

*7- Expedite the establishment of cost accounting to control the costs of its various services provided to co-operatives;*

*8- Conduct systematic assessments of partnership programs and learn from them the required lessons in order to improve the design and implementation of future programs;*

*9- Exert more efforts in order to develop the Office's own financial resources, ensuring a better management of the parafiscal tax, and making a distinction between the funds resulting from the programs adopted under agreements and those resulting from the autonomous budget;*

*10- Work towards the establishment and activation of the structures of the National Federation of the Co-operatives of Morocco provided under the law.*